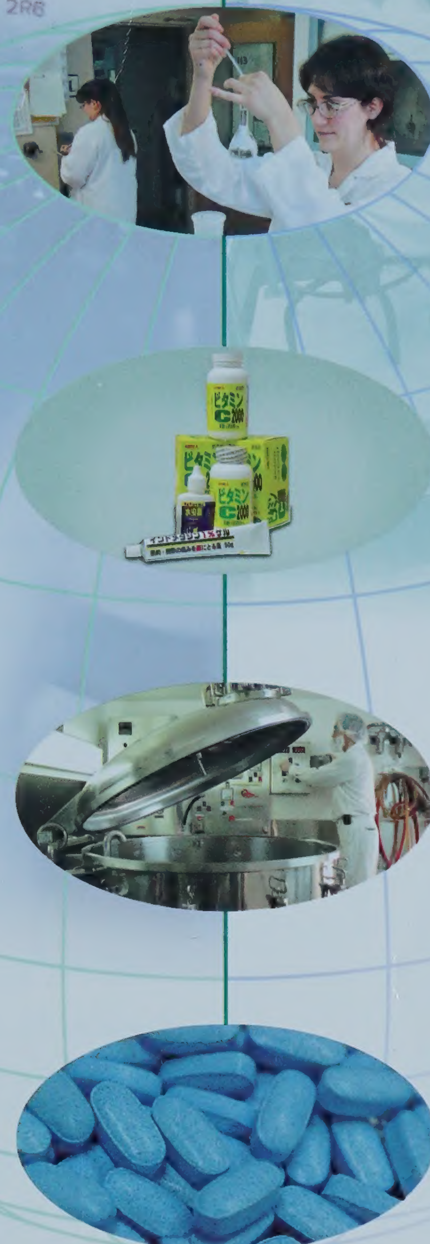


PANGEO PHARMA INC.

2002

Annual Report

CORPORATE HIGHLIGHTS

Fiscal Year Ended	2002	2001
Operating Results	(in thousands of dollars except per share amount)	
Sales	60,005	31,725
Earnings before Amortization and Interest	8,277	2,768
Net Earnings	7,874	486
Depreciation and Amortization	2,153	1,365
Capital Expenditures	3,177	1,405
Financial Position, Year End		
Total Assets	85,822	39,798
Total Long Term Debt	5,531	2,841
Shareholders' Equity	65,950	25,166
Data Per Common Share		
Earnings Per Share (Basic)	0.14	0.01
Earnings Per Share (Diluted)	0.13	0.01
Other Totals at Year End		
Common Shares Outstanding (Basic)	61,965	55,300
Common Shares Outstanding (Diluted)	80,535	69,043

Highlights

February 6

PanGeo Pharma signed a global licensing and co-branding agreement with Obus Forme® Limited to manufacture and distribute its muscle relaxant for relief from back pain.

February 19

PanGeo signed an exclusive five year agreement with a distribution company in Japan to supply Japanese drug store chains with private label pharmaceutical products.

February 23

The common shares of PanGeo Pharma Inc. began trading on the Toronto Stock Exchange under the ticker symbol "PIL".

February 28

PanGeo Pharma is awarded the contract to supply and distribute LIFE® Brand natural and synthetic Vitamin E for Shoppers Drug Mart.

June 4

PanGeo Pharma Inc. reports record Year-End results. For the twelve-month period, revenues increase approximately 460% from $5.7 million in 2000 to $31.7 million in 2001.

TABLE OF CONTENTS

July 5

PanGeo Pharma Inc. acquired Herbal Health Inc., a branded liquid herbal company for $350,000

August 21

PanGeo Pharma Inc. and Cellegy Pharmaceuticals announced the signing of a long term agreement under which PanGeo will manufacture Cellegy's Tostrex™ at its Montreal manufacturing facility.

January 24

PanGeo Pharma acquired the ENTRO-PHEN® enteric-coated ASA brand from Johnson & Johnson Merck Consumer Pharmaceuticals and Merck Frosst Canada & Co.

LETTER TO SHAREHOLDERS

To Our Shareholders:

Over the past twelve months, PanGeo Pharma solidified its status as one of the fastest growing pharmaceutical companies in Canada. That status is the result of a determined commitment by our entire team to set new standards of performance and accomplishment in our industry.

As a relatively young company, we continue to take important steps in our evolution as a diversified and integrated tier one specialty pharmaceutical company.

In a few short years, we have successfully integrated our platform businesses into an industry leader focused on branded products, private label products, exports and contract manufacturing. We have driven our top line through an aggressive program of organic and acquired asset growth. At the same time, we have improved our bottom line through the careful management of acquired assets and attention to operational efficiencies. We have broadened our product assortment while maintaining a focused product offering. We have extended our international market reach as a new entrant in the Japanese market. We have expanded our cGMP compliant manufacturing facilities, improving their operational efficiencies. We have created one of the finest management and employee teams in the business. Most importantly, we have created value for our shareholders.

Fiscal 2002 was a year in which we took stock of our rapid development as a company.

Based on our strategic assessment, we developed a new core purpose and core values for PanGeo Pharma. As a result of that work, we have established a number of corporate objectives. We are a company dedicated to the enhancement of the health status and quality of life for all our customers. We are determined to carry out our purposes in ways that value honesty and integrity, innovation and creativity, respect and enrichment, and excellence.

We envision a future in which we are the clear industry leader in our markets. These objectives are underscored by five key competitive advantages:

A Focused Offering

While the scale of our branded, private label, export and contract products continues to increase, we will maintain a focus on the profitable range of health products for which we have expertise and market recognition.

An Integrated Operation

We will invest in assets that offer benefits to our integrated business. In order to create operational efficiencies, we will place high value on the compatibility of product lines with manufacturing operations.

Strategic Acquisitions

Seven acquisitions in two years have substantially improved both our product offering and our revenue base. Our efforts in this area will remain disciplined and selective. We will ensure that all acquisitions represent a good fit with our focused product offering and our integrated business.

Sound Financial Management

We will ensure that our investments in acquisitions do not detract from the strengthening of our balance sheet. We will maintain the competitive advantage we have earned as a result of our proven efficiencies in purchasing management.

Outstanding People

We have added substantial depth and experience to our management team. We will continue to attract, retain and reward people who bring unique skills in brand management, sales and marketing, logistics, human resources, finance and business development.

Going forward, we will solidify our status as an integrated tier one specialty pharmaceutical company. We will leverage strategic alliances and acquisitions into expanded market reach and market share. We will aggressively seek out new acquisition potential consistent with our strategic objectives, creating an expanded offering and complementary revenue streams.

Our strong financial performance in fiscal 2002 is solid evidence of a powerful vision, a winning strategy and an outstanding team. We are determined to translate these into significant and lasting value on behalf of our shareholders in the years ahead.

On behalf of the Board,

A. D

Ahmad Doroudian, Ph. D.
Chairman and Chief Executive Officer

PRESIDENT'S MESSAGE

From the President:

Fiscal 2002 was a year in which we made solid progress in our continuing evolution from a private label manufacturer to a leading specialty pharmaceutical company. We produced solid gains in our second profitable year, and set the stage for continued performance over the longer term.

Our year over year sales almost doubled in 2002, reaching a record level of $60.0 million, representing more than a ten-fold increase in two years. Each of our four business channels contributed to this excellent growth, with Branded Products and Exports making up almost two-thirds of the total. Revenues were well distributed over the four quarters, with predictably stronger performance in the second half of the year. Consolidated net income from all operations showed similarly positive results, jumping sixteen-fold to a record $7.9 million.

As was the case in 2001, our organic growth was strengthened by a continuing program of acquisitions. These were undertaken on the basis of their strategic fit with our product focus and with the efficiency objectives of our manufacturing operations.

We acquired Herbal Health Company, an American distribution company, and Entrophen, a Canadian brand of coated ASA products. As the fiscal year came to a close, we made two additional strategic acquisitions. The first was a share in our current Japanese distributor, SORM, a firm that has strong relationships with Japanese retail chains and regulatory bodies. The second was Quest Consumer Health Care, a Canadian division of Boehringer Ingelheim (Canada) Ltd., that brings us the Quest brand of vitamin products, licenses to market the Kyolic and Probiotica product lines in Canada, distribution of Pharmaton OTC products in Canada, and a 50,000 square foot manufacturing facility.

Important progress was achieved in each of our four businesses, as is reported in the following pages.

Our largest group, Branded Products, showed improved profitability as a result of higher sales, reduced costs and improved margins. In the Private Label-North American markets, we increased the breadth of our product offering, particularly through acetaminophen combination products, while maintaining our product focus. Private Label-Japan established itself as an early entrant in the private label market, contracting to supply 39 OTC products in an exclusive 5-year arrangement. Our tender-driven Export group continued to supply international wholesalers, foreign aid and trade interests. Contract Manufacturing, the backbone of our business, maintained outsourcing operations that capitalize on the worldwide consolidation of the pharmaceutical sector.

Among our many accomplishments for the year, three are worthy of special note.

First, capital expenditures on acquisitions necessary to grow the company have not been incurred at the expense of a strong balance sheet. While the value of year over year total assets doubled in 2002, our liabilities remained relatively flat, and earnings before income taxes, depreciation and amortization ("EBIT-DA") tripled to a record $8.3 million. The strategic integration of new products into efficient manufacturing operations continues to strengthen the bottom line.

Second, our successful entry into the Japanese market has made our Private Label-Japan channel the fastest growing for the company. Our acquisition of a 14.25 per cent share in Japanese distributor SORM helps to cement this large market opportunity. We believe that our status as exclusive first mover in the newly emerging private label OTC Japanese market holds great promise.

Third, important progress was made this year in the development of our branded OTC product business. Prospects for our portfolio management of brands have been greatly improved through the creation of a new and highly skilled marketing team.

We also took steps to strengthen our outstanding management team in 2002.

The Vice-President of Finance, Alex Del Vecchio, was named Chief Financial Officer and we added four new members to the senior management team. Craig McMahon was appointed Chief Information Officer; Henry Evans was named Vice President, Marketing; Henry Gallowitz was appointed Vice-President, Private Label Brands; and Daniel Pharand assumed the position of Executive Vice President, Business Development.

Moving forward, the entire team will remain focused on the core values and purposes that direct us, on our continued evolution as one of the country's most successful, diversified and integrated pharmaceutical companies, and on the creation of lasting shareholder value.

Sean Cleary
President

CONTRACT MANUFACTURING

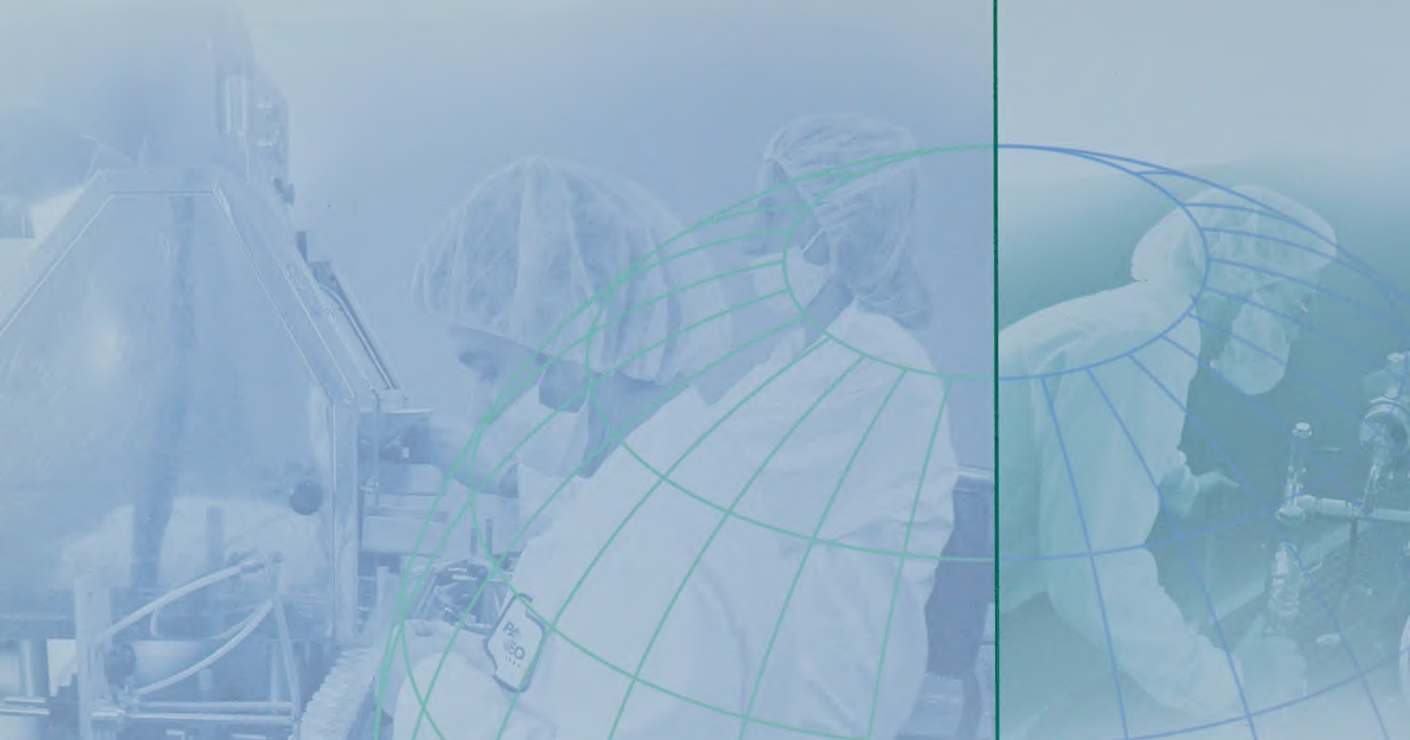
PRIVATE LABEL

DISTRIBUTION CHANNELS

EXPORTS

BRANDED PRODUCTS

Wampole®
QUEST



CONTRACT MANUFACTURING

PanGeo's Contract Manufacturing team is capitalizing on the pharmaceutical industry's worldwide trend towards consolidation. PanGeo is actively seeking out opportunities to add new products to the outsourcing business, and to bring its manufacturing facilities to full capacity.

PanGeo's Montreal facility with state-of-the-art equipment is capable of manufacturing a wide range of prescription drugs and OTC pharmaceutical products. The facility can produce a full range of products including creams, liquids, capsules, and tablets. PanGeo's laboratories are capable of developing a full range of pharmaceutical products in varied dosage forms.

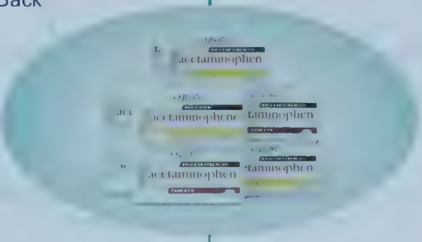
In total, PanGeo has four facilities that are cGMP compliant and these facilities have approval for production of certain pharmaceutical products by the TPP and FDA, which gives the Company invaluable access to the US market.

The Company's strength in Contract Manufacturing will give PanGeo significant market penetration on an international scale, as more multinational pharmaceutical companies seek outsourcing opportunities. As a result, PanGeo expects Contract Manufacturing and drug development to play a vital role in the Company's overall business strategy.

P R I V A T E   L A B E L

In the past fiscal year, PanGeo expanded existing Private Label contracts with the major Canadian pharmacy chains, and added new contracts. As a result, PanGeo has become the dominant supplier of certain private label products in Canada.

We began the year with five key Private Label products: Acetaminophen 325mg and 500mg, Codeine, Vitamin E Synthetic and Natural Source. Product additions included: Regular and Extra Strength Muscle and Back Pain Relief, Muscle and Back Pain Relief with Codeine, Extra Strength Allergy and Sinus Relief, Extra Strength Sinus Relief, Extra Strength Daytime Cold Relief, Extra Strength Nighttime Cold Relief and a Combination Day/Night Cold Relief.



Our strategy of supplying a narrow category of high volume products has led PanGeo Pharma to emerge as a major force in the private label market. PanGeo has become a major supplier in the largest private label self-medication OTC pain relief segment. In addition PanGeo is one of the largest suppliers of Vitamin E and certain codeine products in Canada and we are gaining in international recognition and acceptance.

Building on the success of the Private Label program in Canada, PanGeo has expanded into the Japanese market and is supplying private label products to 25 pharmacy chains.

PanGeo has built on its experience and reputation as a manufacturer of high quality products by laying the groundwork for new private label accounts, both in North America and internationally. This ensures a constant and growing revenue stream in these expanding markets.

E X P O R T S

With over 20 years of experience, PanGeo's international group is a proven leader in the development of business relations with foreign governments, foreign aid agencies and pharmaceutical wholesalers. This has resulted in a logistics, regulatory and marketing expertise available to all our facilities as well as a greater international reach.

Last year, we built on that progress, expanding both our customer base and our status as an approved supplier.

Important progress was made in the expansion of our markets and customers. The company is an approved supplier to organizations such as the Government of Canada and the Japanese Government among others. We also improved our status as an approved supplier with UNICEF. We view these relationships as a key to our continuing international reach.

This year, the exports markets provided substantial opportunity, and we will capitalize on the relationships and experience gained in this large and diverse market. In the coming years, the Company will continue to expand its business in principal international markets which include the Middle East, Africa, Europe and Asia.

BRANDED PRODUCTS

PanGeo Health Brands Inc. is focused on two signature brand names – Wampole and Quest. The Wampole brand includes high quality non-prescription products and is recognized as Canada's Wellness Brand, providing good value across the country for more than 100 years. The Quest brand is the recognized standard of excellence in health products and includes a premium line of vitamins and supplements for consumers who want the very best. Together these brands provide the grounds for PanGeo to deliver products that enhance wellness and quality of life.

PanGeo's brand portfolio also includes: Entrophen, Trim Fit, Logic, Obus Forme ActiFlex, Effervite, Bodycheck, Kyolic, Magnolax, Ginsana, and Essential Solutions.

This year, PanGeo took a number of steps to improve the effectiveness of its marketing and sales functions. A new marketing unit was put in place, including a seasoned team of product managers. This team undertook a product regrouping, and began strategic and aggressive promotion of the brands which will continue to drive growth.

In addition, PanGeo also represents Abbott Labs Canada at retail which includes such leading brands as Similac, Ensure, Pedialite and Glucerna.

All in, PanGeo represents some $180 million of brand sales at wholesale. Our retail channels value the company's entry into new and profitable product lines. PanGeo is launching a number of new products this year, comprised of line extensions and new products.

Consumers have long trusted our quality products and brands. PanGeo is determined to grow ever stronger in the minds of our loyal customers by providing innovative and interesting new product offerings which enhance health and quality of life.

MANAGEMENT DISCUSSION & ANALYSIS

Overview

PanGeo Pharma Inc. is a specialty pharmaceutical company with core competencies in pharmaceutical manufacturing. PanGeo manufactures and supplies a range of specialty pharmaceutical products and services to international markets. The company employs over 500 people working in eight affiliate companies internationally.

PanGeo owns and operates four cGMP compliant manufacturing facilities comprising approximately 250,000 square feet of capacity. The Company's manufacturing activities consist primarily of solid, semi-solid and liquid dosage Rx and OTC products. These products are manufactured to client specifications according to the cGMP guidelines established by Canada's Health Canada and The United States' Food and Drug Administration (FDA). PanGeo's team of production, quality control, logistics and sales professionals ensures timely delivery of high quality products.

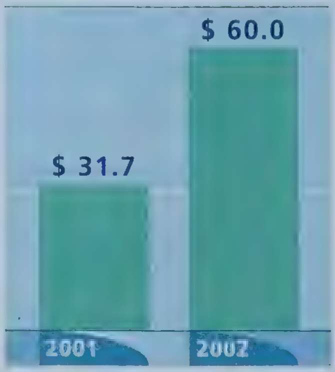
Together, PanGeo's facilities offer multinational drug companies and pharmacy chains a very competitive package of total value that includes contract sales, manufacturing, drug development and brand management. PanGeo is unique among specialty pharmaceutical companies in offering such a range of goods and services.

Revenues

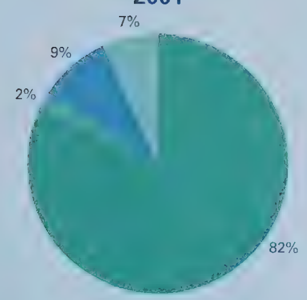
As a result of continuing growth PanGeo's revenues increased to $60.0 million for year ended January 31, 2002 compared to $31.7 million for year ended January 31, 2001 representing an increase of 89.3%. The increase is attributable to the acquisitions in Q2 and Q3 last year and to organic growth of 28.2%.

Revenues have steadily increased quarter over quarter this year as compared to last year. Fourth Quarter sales increased to $19.3 million compared with last year of $12.4 million reflecting an increase of 55.6% for the quarter.

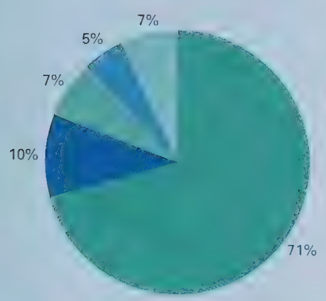
Revenues



2001



2002

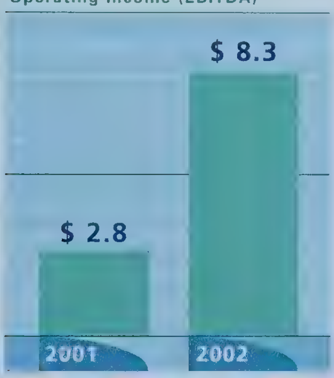


Revenues By Geographic Region

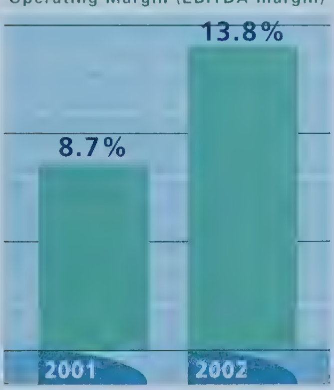
PanGeo continues to grow internationally. One of the company's core strengths is the ability to capture international opportunities. During the current fiscal year PanGeo entered the Asian market generating $6.1 million of revenues in its first year of Asian operations. Exports to other countries also had tremendous growth. Sales for the current year increased to $11.7 million compared with $5.8 million last year. Sales in Canada increased to $42.3 million compared with $26.0 million last year.

- Canada
- Asia
- Africa
- Middle East
- Other

Operating Income (EBITDA)



Operating Margin (EBITDA margin)



Operating Expenses

Operating expenses comprise manufacturing costs, marketing, sales, general and administrative costs. Operating costs increased to $51.7 million compared with $29.0 million last year. The increase is attributable to costs required to sustain the company's growth and on a percentage basis dropped from 91.3% to 86.2%.

Operating Income (EBITDA)

EBITDA, representing earnings before interest, income taxes, depreciation and amortization, increased to $8.3 million compared with $2.8 million last year. The increase is attributable to internal growth and strategic acquisitions consummated in Q2 and Q3 of the previous fiscal year.

Operating Margin (EBITDA margin)

EBITDA margin increased to 13.8% compared with 8.7% last year. The increase is attributable to our continuing strategic focus on higher margin product lines and increased capacity utilization of our production facilities.

Amortization and Depreciation Expenses

Amortization and depreciation expenses increased from $1.4 million last year to $2.2 million this year. The increase is mainly due to the increase in fixed assets and goodwill arising from the Company's various acquisitions.

Financial Expenses

Financial expenses increased from $877 thousand in the year ended January 31, 2001 to $1.1 million in the year ended January 31, 2002. As a percentage of sales, interest expense decreased to 1.9% in 2002 compared with 2.8% in 2001. In 2001, $322 thousand of the interest expense related to bridge financings for the acquisitions. Interest relating to operating lines increased from $242 thousand in 2001 to $728 thousand for 2002. This increase is attributable to increased working capital requirements in 2002 as sales increased by 89.3%. As a percentage of sales, interest expense relating to the operating line increased to 1.2% in 2002 compared with 0.8% in 2001. Interest on long term debt

decreased from $313 thousand the previous year to $234 thousand in the current year. Foreign exchange losses increased to $153 thousand as a result of the Company's increased purchasing activity.

Income Taxes

The Company benefited from loss carry forwards from the continuing operations of the prior year's acquisitions. The benefit recorded for 2002 is $1.6 million. In addition, a further tax asset of $3.2 million was recorded which will be realized in future periods.

Net Income

Net income in year ended January 31, 2002 increased to $7.9 million from the previous year of $486 thousand. Net income margin increased to 13.1% in 2002 from 1.5% last year. Basic net income per share was $0.14 compared with $0.01 last year. Diluted net income per share was $0.13 compared with $0.01 last year

Liquidity and Capital Structure

For the year ended January 31, 2002 cash generated by operating activities (before net change in non-cash working capital balances related to operations) was $6.9 million ($0.12 per share) compared with $1.9 million last year ($0.05 per share).

As a result of growing revenues, working capital requirements increased by $31.4 million as at year ended January 31, 2002. The increase is due to supporting higher accounts receivable and higher inventories in order to meet the Company's current and future growth needs. Cash at January 31, 2002 was $6.5 million as a result of raising funds from the special warrants financing in January 2002 whereby these funds were used to pay down the operating line of credit. Last year bank indebtedness was at $3.0 million.

Working capital increased to $42.8 million this year compared to $11.4 million last year. The working capital ratio at January 31, 2002 improved to 3.9:1 compared to the previous year of 1.9:1.

Capital Expenditures

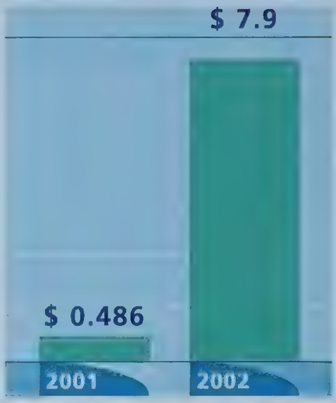
The company purchased capital assets of $3.2 million for year ended January 31, 2002 compared with $1.4 million the previous year. The increase is attributable to an increase in the acquisition of manufacturing equipment of $2.3 million and the acquisition of computer equipment of $904 thousand as a result of the Company's growth.

Interest Bearing and Long Term Debt

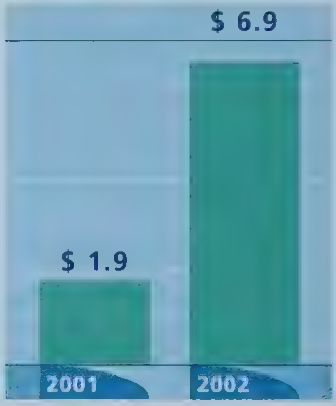
At January 31, 2002, the Company had long term debt of $5.5 million compared with $2.8 million last year. The increase is due to an additional bank term loan issued during the year.

At January 31, 2002, the Company had available $15 million operating line of credit with its bankers of which zero had been drawn down.

Net Income

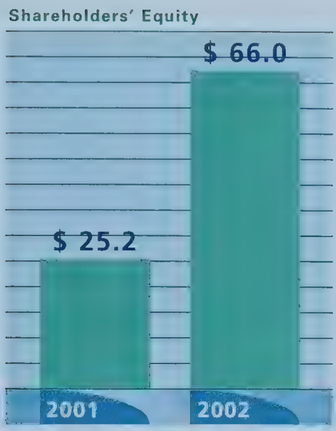


Cash Flow from Operating Activities



Working Capital

The Company's interest bearing debt-to-equity ratio was 8.4% this year compared with 23.2% last year. At January 31, 2002 long term debt was 6.4% of invested capital, defined as total debt, future tax liabilities and shareholders' equity, compared with 7.1% in the previous year.



Shareholders' Equity

At January 31, 2002, Shareholders' Equity was $66.0 million compared with $25.2 million at year end 2001. The increase was as a result of net income of $7.9 million generated in year end 2002 and net proceeds from equity issued during the year. Net proceeds received from exercise of options and stock warrants (6.5 million common shares) at various dates and various exercise price totaled $6.0 million, issuance of stock for the acquisition of Herbal Health on July 4, 2002 amounted to $273 thousand (140 thousand common shares) and net proceeds of $26.6 million on the issuance of special warrants in January 2002 (9.2 million common shares).

Accounting Changes

Effective for year ended January 31, 2002, the company adopted the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") with respect to the accounting for earnings per share and accounting for business combinations, goodwill and other intangible assets. Please refer to note 2 in the Notes to Consolidated Financial Statements for Year Ended January 31, 2002.

Acquisitions

During the second quarter the company acquired 100% of the outstanding shares of 1375092 Ontario Inc (Herbal Health) which provides PanGeo a channel of distribution into the United States market. Herbal Health sells its products to a number of retail outlets in pharmacy chains, grocery chains and mass merchandisers.

In the last quarter of the year the Company acquired the product "Entrophen" enteric coated ASA brand from Johnson & Johnson Merck Consumer Pharmaceuticals and Merck Frosst Canada & Co. for cash consideration of approximately $2.6 million.

Subsequent Events

On March 19, 2002, the Company agreed to acquire 14.25% of SORM Company Ltd., a Japanese pharmaceutical distribution company, for a consideration of 214 thousand common shares and cash consideration of $857 thousand. During the year, the Company signed an exclusive five year distribution agreement with SORM Company Ltd.

On March 28, 2002, the Company completed a purchase agreement with Boehringer Ingelheim (Canada) Ltd. for the purchase of its Consumer Health Care Division (Quest) for a purchase price of $14 million subject to certain adjustments.

Corporate Outlook

Last year was another record year in financial terms for PanGeo. Since year-end, PanGeo has made two significant strategic moves: the acquisition of Quest Consumer Health Products a division of Boehringer Ingelheim (Canada) Ltd. and the purchase of 14.25% of SORM in Japan. The Quest acquisition is expected to add the necessary momentum and personnel strengths to our branded products group in order to execute its growth plans in North America. The SORM acquisition has significantly strengthened the Company's entry into the Japanese market, which is expected to provide the fastest growing market opportunity for this year. With these two strategic initiatives underway, PanGeo should remain at the forefront of the fastest growing Canadian pharmaceutical companies.

A stated objective of the Company has been to move to ever-higher margins, knowledge-based businesses and our continued acquisitions program at PanGeo is expected to focus on projects in line with this strategy in the coming year.

Foreign Currency Risk

The company does not purchase derivative products or use foreign exchange contracts to protect itself against foreign currency risk. The Company has determined that for the size of transactions and current business mix, it will not purchase derivative hedging products. Neither the Romanian operation nor the exports business, which is mostly in US or Canadian funds, are hedged but the management periodically reviews currency risk.

Interest Rate Risk

The Company has a mix of fixed and floating rate interest-bearing debts. The Company does not enter into interest rate swaps or other interest rate hedge instruments to reduce the risk of a rise in interest rates. Given floating rate debt levels at year-end, a 1% rise in interest rates will have a non-material impact on the interest cost.

Forward-Looking Statements

This report contains forward-looking statements which may be identified by the use of words like "plans," "expects," "anticipates," "intends," "projects," "estimates" or other words of similar meaning. All statements that address expectations or projections about the future, including statements about the Company's strategy for growth, product development, market position, expenditures, and financial results, are forward-looking statements. Forward-looking statements are based on certain assumptions and expectations of future events. The Company cannot guarantee that these assumptions and expectations are accurate or will be realized.

FINANCIAL STATEMENTS

AUDITORS' REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of PanGeo Pharma Inc. as at January 31, 2002 and the consolidated statements of earnings and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at January 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at January 31, 2001 and for the year then ended were audited by other auditors who expressed an opinion without reservation on these statements in their report dated May 15, 2001.

KPMG LLP

Chartered Accountants
Montreal, Canada
April 19, 2002

CONSOLIDATED BALANCE SHEET

January 31, 2002, with comparative figures for 2001 (in thousands of dollars)

	2002	2001
Assets		
Current assets:		
Cash and cash equivalents (note 5)	$ 6,514	$ –
Accounts receivable	21,111	11,509
Inventories (note 6)	28,350	11,559
Prepaid expenses	1,393	673
	57,368	23,741
Capital assets (note 7)	12,936	11,336
Licenses and trademarks (note 8)	3,830	1,425
Future taxes assets (note 12)	4,714	–
Goodwill	4,944	3,105
Long-term investment	233	–
Other assets	1,797	191
	$ 85,822	$ 39,798
Liabilities and Shareholders' Equity		
Current liabilities:		
Bank indebtedness (note 9)	$ –	$ 3,001
Accounts payable and accrued liabilities	13,107	8,790
Income taxes payable	335	–
Current portion of long-term debt (note 10)	1,136	545
	14,578	12,336
Long-term debt (note 10)	4,395	2,296
Future tax liabilities (note 12)	899	–
Shareholders' equity:		
Share capital (note 14)	36,346	30,046
Special warrants (note 15)	26,610	–
Retained earnings (deficit)	2,994	(4,880)
	65,950	25,166
Commitments and contingencies (note 19)		
Subsequent events (note 20)		
	$ 85,822	$ 39,798

See accompanying notes to consolidated financial statements.

On behalf of the Board:

A. [signature] Director

[signature] Director

CONSOLIDATED STATEMENT OF EARNINGS AND RETAINED EARNINGS (DEFICIT)

Year ended January 31, 2002, with comparative figures for 2001 (in thousands of dollars, except per share amounts)

	2002	2001
Sales	$ 60,005	$ 31,725
Expenses: Cost of sales, selling, general and administrative expenses	51,728	28,957
Earnings before the undernoted items	8,277	2,768
Amortization and depreciation	2,153	1,365
Financial expenses (note 11)	1,115	877
Earnings before income taxes	5,009	526
Income tax provision (credit) (note 12)	(2,865)	40
Net earnings	7,874	486
Deficit, beginning of year	(4,880)	(5,366)
Retained earnings (deficit), end of year	$ 2,994	$ (4,880)
Earnings per share (note 13):		
Basic	$ 0.14	$ 0.01
Diluted	0.13	0.01

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended January 31, 2002, with comparative figures for 2001 (in thousands of dollars)

	2002	2001
Cash flows from operating activities:		
Net earnings	$ 7,874	$ 486
Adjustments for:		
Amortization and depreciation	2,153	1,365
Future income taxes	(3,215)	–
Other	38	66
	6,850	1,917
Changes in non-cash assets and liabilities related to operations (net of the effect of business acquisitions):		
Accounts receivable	(9,456)	(3,120)
Inventories	(16,704)	1,635
Prepaid expenses	(700)	(236)
Accounts payable and accrued liabilities	2,237	2,889
	(24,623)	1,168
	(17,773)	3,085
Cash flows from financing activities:		
Bank indebtedness	(3,001)	(405)
Net proceeds from issuance of long-term debt	4,279	545
Repayment of long-term debt	(1,589)	(924)
Issuance of share capital, special warrants, net of share issuance costs	32,258	19,008
	31,947	18,224
Cash flows from investing activities:		
Purchase of capital and intangible assets	(5,777)	(1,405)
Business acquisition, net of cash from acquired business (note 4)	(44)	(19,904)
Long-term investment	(233)	–
Other assets	(1,606)	–
	(7,660)	(21,309)
Net increase in cash and cash equivalents	6,514	–
Cash and cash equivalents, beginning of year	–	–
Cash and cash equivalents, end of year	$ 6,514	$ –

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended January 31, 2002, with comparative figures for 2001 (in thousands, except per share and option amounts)

1. Business description:

Incorporated under the Canada Business Corporations Act, PanGeo Pharma Inc. ("PanGeo" or the "Company") is a specialized pharmaceutical company providing contract manufacturing, formulation development and sales distribution services to multinational drug companies. The Company also manufactures, distributes and exports pharmaceutical products to North American and international chain pharmacies. On September 18, 2000, the Company changed its name to PanGeo Pharma Inc. The Company's common shares trade under the symbol "PIL" on the Toronto Stock Exchange.

2. Accounting changes:

The Company has changed certain accounting policies to conform with new standards.

(a) Earnings per share:

In the first quarter of 2002, the Company has adopted retroactively the new recommendations of the Canadian Institute of Chartered Accountants ("CICA") dealing with earnings per share. These new recommendations harmonize the Canadian standard with the United States standard. The standard requires the disclosure of the calculation of basic and diluted earnings per share using the treasury stock method. The changes resulting from the adoption of the new standard had no significant impact on the diluted earnings per share.

(b) Business combinations, goodwill and other intangible assets:

In August 2001, the CICA issued Section 1581, “Business Combinations”, and Section 3062, “Goodwill and Other Intangible Assets”. The Company has adopted the recommendations of these new CICA Handbook sections which apply to business combinations initiated or completed after June 30, 2001 that are accounted for in accordance with the purchase method. In accordance with Section 3062, goodwill and intangible assets with indefinite useful lives are not amortized and other identified intangible assets are amortized.

For purchase business combinations consummated on or before June 30, 2001, the accounting under Section 1580, “Business Combinations”, and under Section 3060, “Capital Assets”, has been applied. Under these sections, goodwill and separately identifiable intangible assets such as trademarks with an indefinite useful life are recorded and amortized until the Company adopts Section 3062, which will be applied by the Company for the year beginning on February 1, 2002.

3. Significant accounting policies:

(a) Basis of presentation:

These consolidated financial statements include the accounts of PanGeo and its subsidiaries (“the Company”). All significant intercompany accounts and transactions have been eliminated.

(b) Use of estimates:

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Significant areas requiring the use of management estimates include establishing the fair value of assets and liabilities in

3. Significant accounting policies (continued):

(b) Use of estimates (continued):

business combinations, estimating the provision for bad debts and returns as well as determining recoverable value of intangible assets, future tax assets and goodwill. Actual results could differ from those estimates.

(c) Foreign currency:

Monetary assets and liabilities of the Company denominated in foreign currencies are translated at the year-end exchange rates. Exchange gains and losses are recognized in earnings in the current period.

The Company's operations outside of Canada are considered integrated and, accordingly, their accounts are translated to Canadian dollars using the temporal method. Under this method, monetary assets and liabilities are translated to Canadian dollars at year-end exchange rates, non-monetary assets and liabilities at exchange rates prevailing at the dates of the transactions, and revenues and expenses at the average exchange rate during the year. Gains and losses arising from foreign currency translation are included in the consolidated statement of operations.

(d) Cash and cash equivalents:

Cash and cash equivalents consist of investments that are highly liquid, are readily convertible into cash and that have maturities of three months or less at the date of purchase. Cash and cash equivalents are stated at cost which approximates their fair market value.

(e) Inventories:

Finished goods and work in process include material, labour and manufacturing overhead, and are valued at the lower of cost and net realizable value. Raw material and packaging material are valued at the lower of cost and replacement cost. Cost is determined using the first in, first out method.

(f) Capital assets:

Capital assets are recorded at cost. Expenditures for additions, improvements and replacements are capitalized, whereas expenses for maintenance and repairs are charged to expenses. Amortization and depreciation is provided using the following methods and annual rates and periods:

Asset	Basis	Rate/period
Buildings	Declining balance	4%
Equipment	Declining balance	30%
	and straight-line	10%
Leasehold improvements	Straight-line	term of the lease
Furniture and fixtures	Declining balance	20%
Computer equipment	Declining balance	30%

(g) Licenses and trademarks:

Licenses and trademarks are recorded at cost less accumulated amortization. Amortization is provided on a straight-line basis over 5 to 20 years.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(h) Income taxes:

The Company uses the asset and liability method of accounting for income taxes. Under the asset and liability method, future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to apply when the asset is realized or the liability is settled. As appropriate, a valuation allowance is recorded to reduce future assets to an amount at which the realization is more probable than not. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the date of enactment or substantive enactment.

(i) Goodwill:

Goodwill represents the excess of the acquisition cost over the fair value of the identifiable net assets of the business acquired, and is amortized on a straight-line basis over a period of 25 years. The Company conducts regular reviews of the value and amortization period of goodwill taking into consideration any events or circumstances which might have impaired its value. PanGeo assesses impairment by determining whether the unamortized balance can be recovered through undiscounted future cash flows to be derived from operations of the acquired business. Where applicable, the carrying value of goodwill is reduced and this write-down is charged to earnings during the year when the decline in value is recognized.

(j) Long-term investment:

Long-term investment is recorded at cost. When, in the opinion of management, a permanent decline in value has occurred, the investment is written down to its estimated realizable value.

(k) Other assets:

Other assets included mainly deferred development costs for new products.

(l) Revenue recognition:

Revenue from the sale of products is recognized when the risks and rewards of ownership have been transferred to customers, which is considered to have occurred upon shipment or delivery depending on the shipping terms. Provisions are recorded for returns. The Company recognizes revenue when services are completed in accordance with the specific terms of contractual arrangements with its clients and all related costs have been incurred.

(m) Research and development costs:

Research and development costs are expensed in the periods they are incurred, except for costs incurred pursuant to specific contracts with third parties which are expensed in the same period as the related revenue is recognized. Related government grants and tax incentives are recorded as a reduction of expenditures in the period when reasonable assurance of realization is obtained. Development costs that are expected to produce future benefits with reasonable certainty are deferred and amortized over a two-year period on a straight-line basis.

(n) Stock option plan:

The Company has a stock option plan (the "plan") which is described in note 14 (c). No compensation expense is recognized for this plan when stock options are granted to employees. Any consideration paid by employees on exercise of stock option is credited to share capital.

4. Business acquisitions:

The allocation of the purchase price was determined based on management's best estimates of the fair value of the net identifiable assets acquired. Acquisitions have been accounted for by the purchase method and operations are included in the financial statements since the date of acquisition.

Year ended January 31, 2002

– On July 4, 2001, the Company acquired 100% of the outstanding shares of 1375092 Ontario Inc. ("Herbal Health"), a company that distributes products to a number of retail outlets in pharmacy chains, grocery chains and mass-merchandisers in the United States market.

Year ended January 31, 2001

The Company has completed the following acquisitions:

– On May 11, 2000, the Company acquired 100% of the outstanding shares of 9046-7093 Quebec Inc. ("Formulex") for a total consideration of $5,718, including cash, balance of purchase price and by the issuance of 1,354 shares.

– On August 3, 2000, the Company acquired all the operating assets of the Quebec contract manufacturing division of Novopharm Limited and 100% of the outstanding shares of Wampole Canada Inc. ("Novo Quebec") for a combined consideration of $17,789, including $16,534 in cash and by the issuance of 907 shares.

– In fiscal 2001, the Company acquired 100% of the outstanding shares of WHM Trading Inc., a company owned 33 1/3% by a director for a nominal value of one dollar.

The net assets acquired at fair value are as follows:

	2002	2001
Cash and cash equivalents	$ 6	$ –
Non-cash working capital	–	14,953
Capital and intangible assets	5	10,623
Goodwill	1,963	3,285
Total assets	1,974	28,861
Bank indebtedness	–	2,830
Non-cash working capital deficiency	1,651	–
Long-term debt	–	2,524
Net assets acquired	$ 323	$ 23,507
Consideration given:		
Common shares	$ 273	$ 3,353
Cash	50	19,904
Balance of purchase price	–	250
Total acquisition cost	$ 323	$ 23,507

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. Cash and cash equivalents:

	2002	2001
Cash	$ 514	$ –
Term deposit	6,000	–
	$ 6,514	$ –

6. Inventories:

	2002	2001
Raw materials	$ 9,573	$ 4,715
Work in process	4,834	1,074
Finished goods	10,758	4,636
Packaging materials	3,185	1,134
	$ 28,350	$ 11,559

7. Capital assets:

			2002
	Cost	Accumulated amortization	Net book value
Lands	$ 2,415	$ –	$ 2,415
Buildings	4,807	535	4,272
Equipment	8,489	3,541	4,948
Leasehold improvements	598	132	466
Furniture and fixtures	215	102	113
Computer equipment	1,274	552	722
	$ 17,798	$ 4,862	$ 12,936

			2001
	Cost	Accumulated amortization	Net book value
Lands	$ 2,415	$ –	$ 2,415
Buildings	4,807	435	4,372
Equipment	6,170	2,297	3,873
Leasehold improvements	437	72	365
Furniture and fixtures	165	91	74
Computer equipment	370	133	237
	$ 14,364	$ 3,028	$ 11,336

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

8. Licenses and trademarks:

	2002	2001
Licenses:		
Cost	$ 1,533	$ 1,533
Less accumulated amortization	(303)	(108)
	1,230	1,425
Trademarks (1)	2,600	–
	$ 3,830	$ 1,425

(1) On January 24, 2002, the Company acquired from Johnson & Johnson Merck Consumer Pharmaceutical of Canada and from Merck Frosst Canada & Co. the right, title and interest in and to Entrophen® for a cash consideration of $2,600.

9. Bank indebtedness:

Effective December 2001, the Company has available an operating line of credit, outstanding letter of credit and letter of guarantee of up to $15 million. The line of credit is payable on demand and bears interest at the bank's prime rate plus 1.25%, payable on a monthly basis and guaranteed by the Company and its Canadian subsidiaries. As at year-end, the Company had a balance outstanding of nil against the operating line of credit and $826 against letters of credit and letters of guarantee.

The above credit facilities are covered by a first security interest in all the Company's present and future wholly-owned assets, a $15.8 million collateral mortgage over properties in Montreal and various cross guarantees amongst the Company and its subsidiaries.

Finally, the Company also has available a demand credit facility of $1 million which remains unused at year-end. This demand credit facility bears interest at the bank's prime rate plus 1.75%.

10. Long-term debt:

	2002	2001
Demand term loan, bearing interest at prime rate plus 1.25%, with monthly principle repayments of $25, secured by plant facilities, maturing in October 2006. The creditor can require, at any time, immediate repayment of all amounts outstanding.	$ 2,950	$ –
Mortgage, bearing interest at prime rate plus 0.25%, with varying monthly principal repayments of $5 between May 2002 and January 2004, and $10 thereafter, maturing in May 2013 and secured by a moveable hypothec on the land and building of Formulex.	1,175	1,175
Long-term debt, bearing interest at rates varying between a fixed rate of 8.95% and a prime rate plus 0.25%, with monthly principal repayments varying between $2 and $10, maturing at dates from July 2004 and March 2010 and secured by second and third ranking moveable hypothecs on the land and building of Formulex.	486	503
	4,611	1,678

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. Long-term debt (continued):

	2002	2001
Balance carry forward from previous page.	4,611	1,678
Term loans, bearing interest at rates between prime plus 0.75% and prime plus 2.25%, with monthly principle repayments varying between \$2 and \$8, maturing at dates from February 2003 to December 2003 and secured by collateral mortgage over properties and other assets (see note 9).	421	705
Balance of purchase price, unsecured and without interest payable in May 2002, convertible into 192 common shares if final payment is not done by the Company.	250	250
Obligations under capital leases bearing interest at rates between 6.32% and 12.40%, maturing through 2006	120	136
Other debts	129	72
	5,531	2,841
Current portion of long-term debt	1,136	545
	$ 4,395	$ 2,296

Principal repayments, assuming monthly repayments of the demand term loan, over the next five years and thereafter are as follows:

2003	$ 1,136
2004	619
2005	520
2006	465
2007	1,913
2008 and thereafter	878

11. Financial expenses:

	2002	2001
Interest on long-term debt	$ 234	$ 313
Foreign exchange losses	153	–
Other financial expenses	728	564
	$ 1,115	$ 877

12. Future income taxes:

The income tax provision is composed of the following:

	2002	2001
Current	$ 350	$ 40
Future	(3,215)	–
	$ (2,865)	$ 40

12. Future income taxes (continued):

The income tax provision reported differs from the amount computed by applying the federal and provincial rates to earnings before income taxes. The reason for the differences and the related tax effects are as follows:

	2002	2001
Earnings before income taxes	$ 5,009	$ 526
Combined federal and provincial statutory income tax rate	41.7%	39.4%
Expected income tax expense	2,089	207
Change in valuation allowance	(3,215)	–
Unrecorded loss carry forwards of previous year applied to reduce taxable income	(1,628)	(211)
Amortization of goodwill not deductible for tax purposes	52	71
Effect of foreign tax rate differences	(428)	(27)
Large corporation tax and other	265	–
	$ (2,865)	$ 40

The income tax effect of temporary differences that give rise to the net future tax assets, net of the valuation allowance, is presented below:

	2002	2001
Future tax assets:		
Operating losses carry forwards	$ 3,714	$ 5,329
Share Issuance costs	600	–
Capital assets	263	590
Charitable donations	188	216
Other	121	48
	4,886	6,183
Valuation allowance	(172)	(6,183)
	4,714	–
Future tax liabilities:		
Capital assets	443	–
Other	456	–
	899	–
Net future tax asset	$ 3,815	$ –

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will not be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income and tax planning strategies.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. Future income taxes (continued):

As at January 31, 2002, the Company has operating losses carry forward for income tax purposes available to reduce future taxable income of $10,419 expiring from 2005 to 2009 and for which a future tax asset of $ 3,714 has been recorded.

13. Earnings per share:

The following table sets forth the computation of basic and diluted earnings per share.

	2002	2001
Net earnings	$ 7,874	$ 486
Weighted average number of common shares outstanding	56,831	42,572
Effect of dilutive stock options, warrants, special warrants and convertible debt	5,176	1,020
Weighted average number of diluted common shares	62,007	43,592
Earnings per share:		
Basic	$ 0.14	$ 0.01
Diluted	0.13	0.01

14. Share capital:

(a) Authorized capital stock:

An unlimited number of common shares without par value

(b) Issued share capital:

	Number of shares	Amount
Balance, as at January 31, 2000	30,847	$ 5,885
Exercise of stock options	398	124
Exercise of warrants	1,111	476
Private placements (i)	13,811	18,408
Special warrants (ii)	1,700	–
Conversion of debentures (iii)	5,398	1,800
Cancellation (iv)	(226)	–
Business acquisition (v)	1,354	2,098
Consulting fees and other	907	1,255
Balance, as at January 31, 2001	55,300	30,046
Exercise of stock options (vi)	2,407	995
Exercise of warrants	4,118	5,032
Business acquisition (vii)	140	273
Balance, as at January 31, 2002	61,965	$ 36,346

14. Share capital (continued):

(b) Issued share capital:

(i) During fiscal 2001, the Company completed private placements of 13,811 common shares for net proceeds of $18,408.

(ii) On March 8, 2000, the Company qualified for the distribution of 1,700 units in a prospectus. Each unit consisted of one common share and one half of one purchase warrant. Each full warrant entitled the holder to purchase an additional common share at $0.45 per share up to November 15, 2000. The units were sold in November 1999 at $0.35 per unit and the net proceeds of $559 have been included in the records of the Company for the year ended January 31, 2000.

(iii) During fiscal 2001, the Company converted $300 of Series C and $1,500 of Series D debentures into common shares at a conversion price of $0.35 per share resulting in the issuance of 5,398 common shares.

(iv) During fiscal 2001, a total of 226 issued common shares held in escrow were cancelled and the shares returned to treasury.

(v) On May 11, 2000, the Company issued 1,354 common shares in relation to the acquisition of Formulex at a deemed value of $1.55 per share for total proceeds of $2,098.

(vi) During fiscal 2002, a total of 2,407 common shares were issued upon the exercise of 2,334 stock options issued under the Company's stock option plan and 73 under dealer compensation stock options.

(vii) On July 4, 2001, as a part of the acquisition Herbal Health, the Company issued 140 common shares, at a closing share price of $1.95 for total proceeds of $273.

(c) Stock option plan:

Under the terms of its stock option plan, the Company can grant to its key employees, directors, officers and service providers options to purchase shares. The term of each option cannot exceed ten years from the date of grant. The number of shares and the basis on which options may be exercised will be determined by the Board of Directors. Under the terms of the stock option plan 11,082 options to purchase common shares are reserved for issuance to participants. The subscription price is equal to the closing share market price at the date the options are granted.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Share capital (continued):

(c) Stock option plan (continued):

The number of stock options outstanding is as follows:

	2002		2001	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	5,904	$ 0.77	4,336	$ 0.35
Granted	3,008	2.60	1,966	1.62
Exercised	(2,334)	0.38	(398)	0.31
Cancelled	(755)	0.40	–	–
Balance, end of year	5,823	$ 1.92	5,904	$ 0.77

The following table summarizes information about the stock options as at January 31, 2002:

	Outstanding options			Options exercisable	
Exercise price range	Number outstanding	Weighted average exercise contractual life	Weighted average exercise price	Number outstanding	Weighted average exercise price
$ 0.42	1,000	2.2	$ 0.42	1,000	$ 0.42
$1.40 to $1.80	2,781	2.0	1.64	2,781	1.64
$2.80 to $3.05	2,042	4.9	3.04	45	2.80
$0.42 to $3.05	5,823	3.2	$ 1.92	3,826	$ 1.33

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. Share capital (continued):

(d) Dealer compensation stock options:

The following table summarizes the outstanding dealer compensation stock options as at January 31, 2002:

Number of common shares reserved	Exercise price	Expiry date
414	$ 1.40	April 23, 2002
189	1.40	May 11, 2002
603		

During the year ended January 31, 2002, 73 dealer compensation stock options were exercised and nil were granted (respectively nil and 676 for the year ended January 31, 2001).

(e) Share purchase warrants:

The following table summarizes the outstanding share purchase warrants as at January 31, 2002:

Number of common shares reserved	Exercise price	Expiry date
356	$ 0.35	March 8, 2002
1,877	1.75	April 23, 2002
711	1.75	May 11, 2002
2,944		

During the year ended January 31, 2002, 4,118 warrants were exercised, 100 expired, and nil were granted (respectively 1,111, nil and 7,703 for the year ended January 31, 2001).

15. Special warrants:

In January 2002, the Company completed a private placement of 9,200 special warrants at a price of $3.00 each having aggregate net proceeds of $27,600, before special warrants issue costs of $ 990 net of related future income taxes of $ 600. Each special warrant is exercisable for one common share of the Company without any additional consideration.

On February 22, 2002, the Company issued 9,200 common shares following the exercise of all the special warrants.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. Segmented information:

	Canada	Asia	Africa	Middle-East	Other	Total
Year ended January 31, 2002						
Sales	$ 42,256	$ 6,086	$ 4,393	$ 3,272	$ 3,998	$ 60,005
Assets	84,567	–	–	–	1,255	85,822
Year ended January 31, 2001						
Sales	25,960	–	670	3,002	2,093	31,725
Assets	38,763	–	–	–	1,035	39,798

Revenues have been allocated to geographic regions based on the country of residence of the related customers.

17. Financial instruments:

(a) Credit risk:

In the normal course of business, the Company conducts regular reviews of its existing customers' financial position and examines the credit performance of any new client. An allowance for doubtful accounts is established based upon factors relating to the credit risk from specific customers, historical trends and market conditions. The Company does not believe that it is exposed to an above-average credit risk from any individual customer.

(b) Foreign exchange risk:

The Company has operations and exports its products to different countries and is therefore exposed to foreign exchange risks. As at January 31, 2002, and for the year then ended the Company did not use financial intsruments to reduce its exposure to foreign exchange risk.

(c) Fair value disclosure:

The fair value is estimated on a specific date based on the information available about the financial instrument involved. These estimates are subjective and cannot, in many cases, be determined with accuracy.

The Company has determined that the carrying value of its current financial assets and liabilities approximates their fair value because of their immediate or near-term maturity.

The fair value of long-term debt, including term loan, obligation under capital leases and other approximate their carrying value.

(d) Concentration of credit risk:

The Company's two largest customers accounted for approximately 20% of the sales for 2002 (14% in 2001).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

18. Statement of cash flows - additional information:

	2002	2001
Cash paid during the year for:		
Interest	$ 872	$ 822
Income taxes	66	–
Capital assets acquired and included in accounts payable and accrued liabilities or financed under capital leases	252	99
Share issuance costs included in accounts payable and accrued liabilities	221	–
Conversions of debentures into common shares	–	1,800

19. Commitments and contingencies:

(a) Commitments:

As at January 31, 2002, the Company rents premises under operating leases which expire at various dates ranging from September 2003 to June 2007.

Minimum payments under these leases for each of the next five years are as follows:

2003	$ 276
2004	160
2005	135
2006	51
2007	50

(b) Contingencies:

The Company is involved in various claims and litigations in the normal course of business. Management does not believe that such claims and litigations will have a material adverse effect on the Company's results of operations or financial position.

20. Subsequent events:

(a) On March 19, 2002, the Company agreed to acquire 14.25% of SORM Company Ltd., a Japanese pharmaceutical distribution company, for a consideration of 214 common shares of the Company and cash consideration of $857. During the year, the Company signed an exclusive five year distribution agreement with SORM Company Ltd.

(b) On March 22, 2002, the Company entered into a purchase agreement with Boehringer Ingelheim (Canada) Ltd. related to the purchase of its consumer Health Care division for a purchase price of $14,000 in cash subject to certain adjustments. Pursuant to the agreement, the Company acquired the contracts to manufacture product for Boehringer Ingelheim for distribution in the U.S.A. and distribute Pharmaton products for Boehringer Ingelheim in Canada. The Company acquired a manufacturing plant and the Quest brand. This transaction was completed on March 28, 2002. The purchase price allocation of the net identifiable assets acquired has not been completed at this time.

21. Comparative figures:

Certain comparative figures of 2001 have been reclassified to conform with the financial statements presentation adopted in the current year.

BOARD OF DIRECTORS

Ahmad Doroudian, Ph. D.	Chairman and Chief Executive Officer, PanGeo Pharma Inc.
Mr. Sean Cleary, M.B.A.	President, PanGeo Pharma Inc.
Mr. David Appel, M.A., B.C.L.	President, David Appel Investment Consultants. A Toronto-based investment counselling Company
Mr. Robert J. Roy, CA	Director, Merchant Banking, RoyNat Capital Inc. A wholly-owned subsidiary of Scotia Bank
Mr. Daniel Pharand, CA	Executive Vice-President, PanGeo Pharma Inc.
Mr. Robert Goodwin, CFA	Director, Jones Gable & Company Ltd.
Mr. Scott Kelly, BA, CAAP	President, Biocom Inc.

AUDIT COMMITTEE

Mr. Robert Goodwin, CFA

Mr. David Appel, M.A., B.C.L.

Mr. Daniel Pharand, CA

CORPORATE OFFICERS

Ahmad Doroudian, Ph. D.	Chairman and Chief Executive Officer
Mr. Sean Cleary	President
Mr. George James	Chief Operating Officer
Mr. Daniel Pharand	Executive Vice-President
Mr. Alex Del Vecchio	Chief Financial Officer
Mr. Craig McMahon	Chief Information Officer
Mr. Hamid Doroudian	President, ROM Industy SRL
Mrs. Dawn Wilde	Corporate Treasurer
Mr. Marko Maryniak	General Counsel

SHAREHOLDER INFORMATION

Share Capital
Authorized and Issued as at
January 31, 2002

Shares	Authorized	Issued
Common Shares	Unlimited	61,965

Stock Exchange Listing

The common shares of the company trade on the Toronto Stock Exchange under the ticker symbol "PIL".

CUSIP No. 69841N 107

Auditors

KPMG LLP
Chartered Accountants
2000 McGill College Ave.
Montreal, Quebec H3A 3H8

Transfer Agent & Registrar

Pacific Corporate Trust
66 Wellington Street, Suite 5210
P.O. Box 240
TD Tower, Toronto Dominion Center
Toronto, Ontario M5K 1J3
Telephone: (416) 862-7620
Fax: (416) 366-2476

pacific@pctc.com

The Transfer Agent is responsible for shareholder records, transfers and issuance of share certificates.

Shareholders

Annual reports, annual information form and other documents

2180 Dunwin Drive, Unit 2
Mississauga, Ontario L5L 5M8
Telephone: (905) 569-1446
Fax: (905) 569-9447
info@pangeopharma.com

Investors and Media

Investor and Media Relations Dept.
PanGeo Pharma Inc
2180 Dunwin Drive, Unit 2
Mississauga, Ontario L5L 5M8
Telephone: (905) 569-1446
Fax: (905) 569-9447
info@pangeopharma.com

SHAREHOLDER INFORMATION

Media Relations

For information on PanGeo Pharma inc. contact our public relations department at (905) 569-1446. PanGeo's press releases are available on the Internet at the following address:

www.pangeopharma.com

Website:

For more information on our products and services, visit our website at www.pangeopharma.com

2002 Annual Meeting

The annual meeting of shareholders will be held in Toronto, on Wednesday, June 26, 2002 at 10:30am.

TSE Conference Centre
The Exchange Tower
130 King Street West.

Legal Counsel

Gowlings, Lefleur, Henderson LLP
Scotia Plaza
40 King Street
Suite 5800
Toronto, Ontario M5H 3Z7

Financial Calendar

Year End – January 31

Annual Report is mailed in May. Quarterly reports are mailed in July, September and December.

Change of Address

Registered shareholders should notify the Company's Transfer Agent and Registrar at the address set out above. Beneficial Owners should contact their respective brokerage firm to give them notice of a change of address.

Chartered Bank

The National Bank of Canada
The Exchange Tower
Suite 3200, 130 King St. West
Toronto, Ontario M5X 1J9

Equal Opportunity Employer

PanGeo Pharma is an equal opportunity employer and seeks to attract and retain the best-qualified people regardless of race, religion, national origin, gender, sexual orientation, age or disability.

Head Office

8580 Ave. De L'esplande
Montreal, Quebec H2P 2R8
Tel: (514) 384-6516
Fax: (514) 384-9941

Corporate Headquarters

2180 Dunwin Drive, Unit 2
Mississauga, Ontario L5L 5M8
Tel: (905) 569-1446
Fax: (905) 569-9447

Sales & Marketing

2180 Dunwin Drive, Unit 3
Mississauga, Ontario L5L 5M8
Tel: (905) 828-3530
Fax: (905) 828-3531

Manufacturing Facilities

PanGeo Quebec

8580 Ave. De L'esplande
Montreal, Quebec H2P 2R8
Tel: (514) 384-6516
Fax: (514) 385-7479

PanGeo Health Brands

1781 West 75th Ave.
Vancouver, B.C. V6P 6P2
Tel: (604) 261-0611
Fax: (604) 261-2610

Canapharm Manufacturing

65 Dufferin Street
Perth, Ontario K7H 3A5
Tel: (613) 267-7959
Fax: (613) 267-6945

Formulex Canada

5950 E. Ch. Côte de liesse
Ville Mont Royal, Quebec H4T 1E2
Tel: (514) 733-7146
Fax: (514) 733-9320

Pharmex ROM

Natase Panfil 31A
Sector Z
Bucharest, Romania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PANGEO
PHARMA INC.

2180 Dunwin Drive, Unit 3
Mississauga, Ontario
L5L 5M8
www.pangeopharma.com